Acklands Limited

1984

Annual Report

MAR 25 1985
MCGILL UNIVERSITY

Financial Highlights		1984		1983
Sales from continuing operations	$	**349,165,000**	$	317,471,000
Income from continuing operations		**4,037,000**		4,335,000
Losses of discontinued operations		**(236,000)**		(1,033,000)
Extraordinary items		**555,000**		1,350,000
Net Income		**4,356,000**		4,652,000
Earnings per common share – primary				
Income from continuing operations		**1.04**		1.32
Losses of discontinued operations		**(0.06)**		(0.32)
Income before extraordinary items		**.98**		1.00
Net Income		**1.12**		1.43
Dividends paid				
Preference shareholders		**18,000**		76,000
Common shareholders		**2,319,000**		1,153,000
Dividends paid per preference share		**0.30**		0.96
Dividends paid per common share		**0.60**		0.30
Shareholders' equity		**72,391,000**		71,031,000
Equity per common share		**18.70**		18.19
Total Assets	$	**185,838,000**	$	189,072,000

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Annual Meeting

The Annual Meeting of Acklands Limited will be held on Tuesday, May 7, 1985 at 2:30 p.m. in the La Verendrye Room of the Carleton Club, 280 Fort Street, Winnipeg, Manitoba.

Corporate Profile

Acklands has operated a warehousing and distribution business in Canada for 95 years. Our 18 regional distribution centres and 229 branches currently merchandise more than 70,000 automotive parts and 85,000 industrial products in markets from Vancouver Island to the Maritimes and as far north as Inuvik.

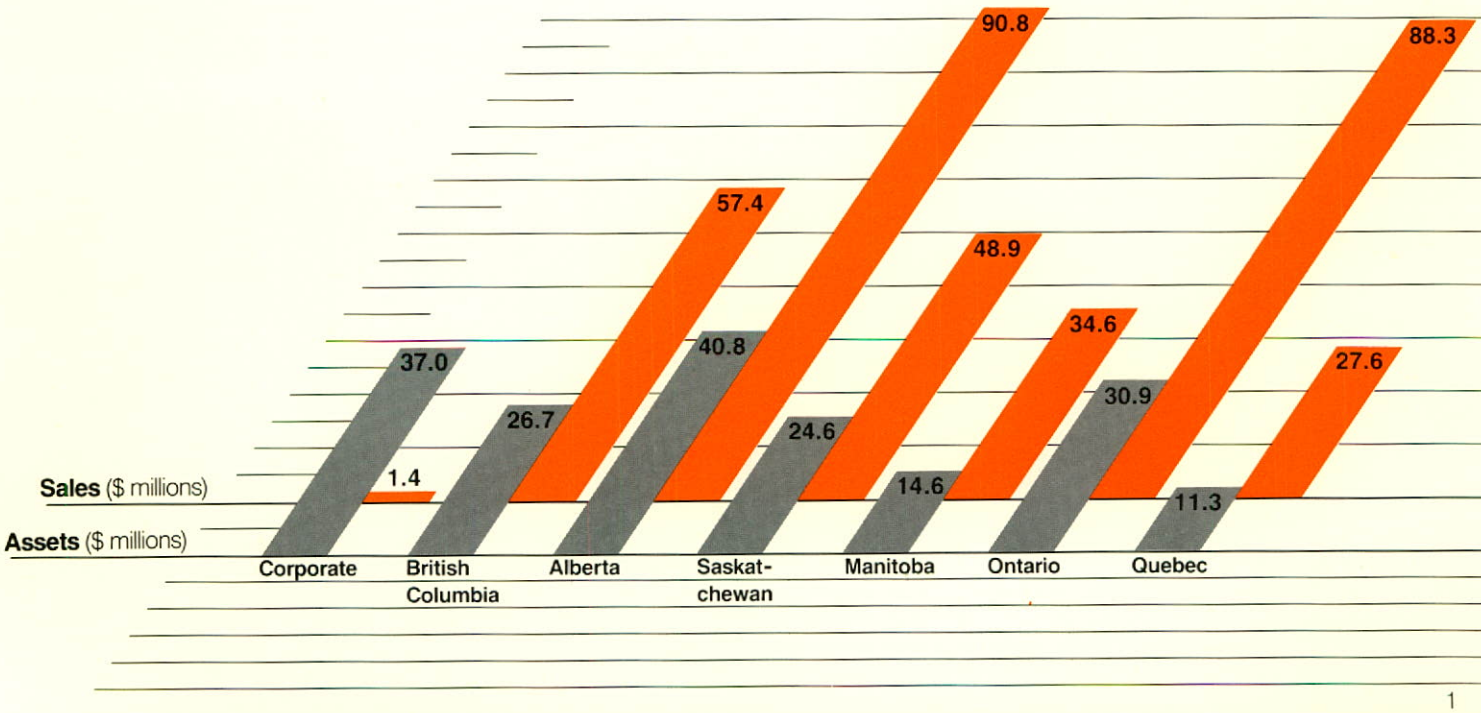
The national scope of our organization assures optimum market penetration of every major urban centre, as well as many smaller communities, in Canada. Each warehouse, branch and operating division is structured as an autonomous unit, with localized responsibility for achieving profitability and return on asset performance levels.

Sales are made through a network of distribution channels that link manufacturers with our warehouse and branch system, and with wholesale jobbers, to deliver products to end users in manufacturing, mining, the energy, farming and forestry sectors and the automotive aftermarket.

To serve specific markets, we have developed several specialized divisions. Acklands operates, for example, a programmed distribution system under the Bumper To Bumper name. It contains 220 outlets, two-thirds of which are independently owned, with Acklands providing product, advertising, merchandising, market and store design services.

Sales (from continuing operations) $349,165,000

Assets $185,838,000



President's Report

Three years ago, Acklands committed itself to a total reshaping of its operations, primarily to reduce both our basic costs and our vulnerability to economic developments beyond corporate control. This process culminated in 1984 with several accomplishments.

- We restructured and simplified our regional organization by creating three geographic groups, each led by a recently-appointed senior executive;
- We consolidated responsibility for national sales and marketing of both automotive parts and industrial supplies;
- We extended our computer network to all warehouses, as well as to selected manufacturing suppliers;
- We consolidated several warehouses and branches to reduce operating costs and enhance productivity; and
- We achieved much improved financial ratios.

Acklands is now a tightly-managed and cost-efficient company. We have virtually completed our extensive rebuilding mission and can now, with confidence, pursue profit growth opportunities.

Significantly, the improvements being achieved reflect our revitalized approach to business management, rather than changes in the Canadian economy. In fact, economic growth was unevenly distributed through the country last year. Gains in central Canada were largely offset by weaknesses in western Canada and the Maritimes. While stabilized interest rates were a positive factor, rates remained historically high, especially by comparison with greatly reduced levels of inflation.

Financial Results

Sales from continuing operations in 1984 totalled $349.2 million, a 10.0 percent increase from $317.5 million in 1983. Auto parts and related accessories contributed approximately 50 percent of these revenues, with the remainder attributable to industrial supplies. As expected, the demand for industrial supplies was weak and we therefore emphasized the marketing of auto parts.

Income from operations was $3.8 million, or $0.98 per share, compared to $3.3 million, or $1.00 per share, before extraordinary items, reported the previous year; weighted monthly average number of common shares was 3,864,383 in 1984 and 3,209,977 in 1983. After extraordinary items, final profit was $4.4 million this year compared with $4.7 million in 1983. Our profitability reflected reduced interest expense and the effectiveness of cost containment measures initiated since 1982. Interest expense was 2.8 percent of sales in 1984, compared with 3.3 percent in 1983. As well, we benefitted from higher inventory turns as a result of the investments made in computer systems during recent lean years. Intense competitive pressures have continued unabated, however, and this has adversely affected our results.

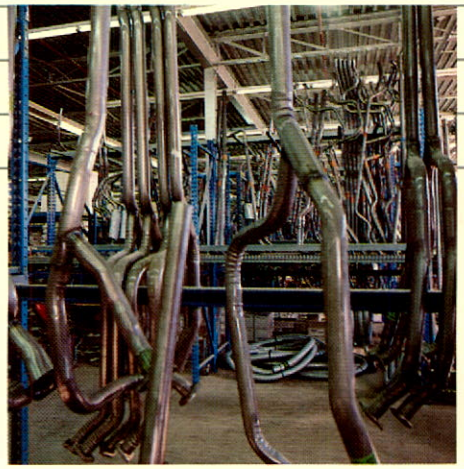
The Automotive Aftermarket

The Canadian automotive aftermarket is in another period of fundamental change. Over the past 10 years, warehouse distributors and wholesale jobbers were adversely affected by the sudden entry of mass merchants in the auto parts sector, coupled with a strong diminution in local service stations, traditional jobber customers. Recent surveys indicate, however, that market penetration by mass merchandisers has reached a plateau.

Traditional jobbers and distributors are now strengthening their market presence through aggressive marketing and programmed distribution techniques.

Acklands' strategy has been to consolidate certain activities, such as merchandising, advertising and store operations, under core groups of experts and to emphasize the development of our Bumper To Bumper program. This program involves a large network of wholesale/retail stores, mostly owned and operated by independent jobbers, and provides access to the "do-it-yourself" market.

Late in 1984, we expanded this network by entering into a joint relationship with Firestone Canada Inc. for Bumper To Bumper outlets to be installed in a selection of that company's franchised stores. By year-end,



4 Firestone/Bumper To Bumper facilities were in operation and another 12 are planned to open in 1985.

Industrial Supplies Market

The demand for industrial supplies has not yet recovered from the slump experienced in the 1981-82 recession. Our response has been to seek out geographic markets, mostly in western Canada, that are not being adequately served. This strategy is proving to be successful. Unfortunately, recession weakened farm markets in certain parts of the prairies suffered further setbacks during last summer's drought, which reduced our industrial sales.

Corporate Strategy and Organization

Our business activities are clearly focussed on the distribution and marketing of auto parts and industrial supplies. We continue to refine our product line selection and to research and carry new products for which there are identifiable market demands.

Our distribution system is national in scope with certain core functions centralized at head office. The creation last year of a national sales function underscores our commitment to preserve Acklands as a cohesive, integrated national company. However, the formation of regional management groups ensures that our field executives have sufficient autonomy to tailor their own pricing and marketing strategies and thus hold or enlarge their market shares.

Outlook

We anticipate moderate economic growth in 1985, producing steady, but unspectacular, improvements in our sales revenues. British Columbia will remain a weak market, although Alberta should improve. Saskatchewan and Manitoba should once again provide good sales opportunities. The outlooks for Ontario and Quebec continue to be positive, although Quebec, where we concentrated on selling to specific market segments, may not sustain last year's strong growth rate.

Economists are divided on the magnitude and direction of interest rate trends which have an important impact on our inventory and other financing costs. Our forecasts suggest no significant change in the first half of 1985 before rates rise slightly in the second six months for little year-on-year change. Fortunately, our debt/equity ratio has improved in the past two years, although borrowing costs still have a large influence on our earnings.

In the longer term, we are confident of steady growth in profit performance. Acklands is now organized in such a way that we can act decisively to take full advantage of market opportunities. Our costs are under control and further economies will be achieved as our branch operations are computerized. All of this means we should be able to transfer an increasing portion of revenue growth to the bottom line.

Acknowledgements

I am pleased to announce the appointment of the Honourable Jean Chrétien to the Board of Directors. Mr. Chrétien will greatly enrich our policy making and strategic planning process by bringing to Acklands a wealth of financial and government knowledge.

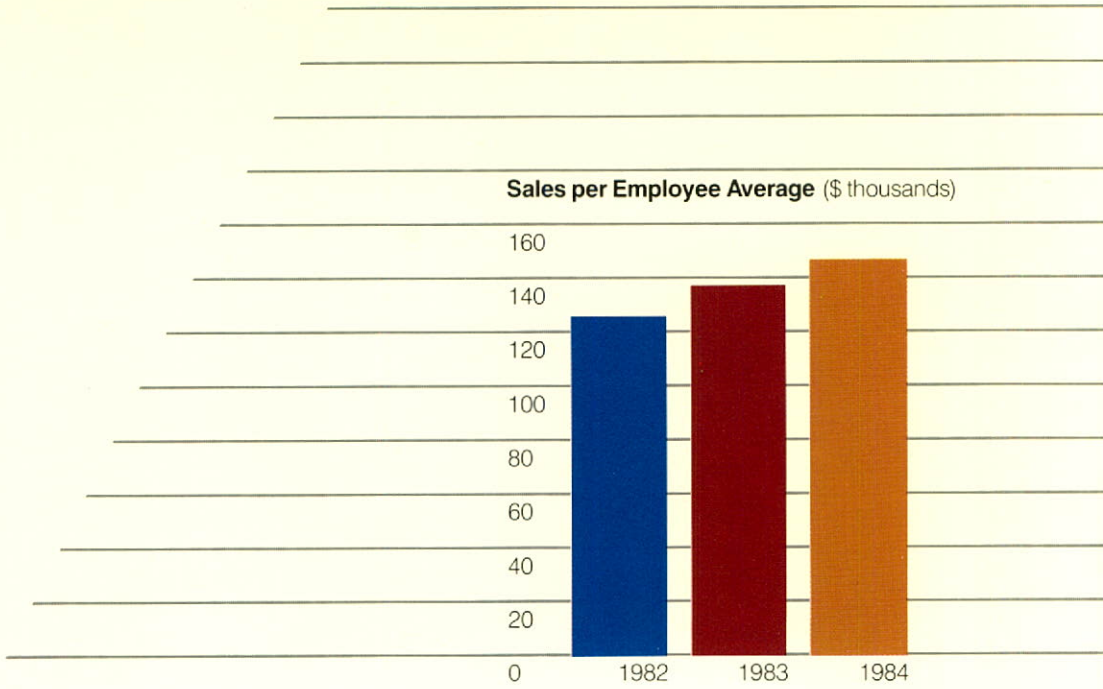
We note with regret that Mr. Herman Kahn has retired as honorary director in February, 1985. Mr. Kahn served as a director for many years and his contributions and perspectives will be missed.

Our employees have worked with determination and enthusiasm during recent difficult years. Their loyalty and dedication has ensured the future success of our Company. On behalf of the Board of Directors, I wish to thank them – along with our suppliers, customers and shareholders – for their invaluable support.

N. Starr

Nathan Starr
President and Chief Executive Officer

Operations Review



Sales were extremely cyclical in 1984. They followed the seasonal pattern of a weak first quarter and much improved second quarter before declining unexpectedly in the third quarter. Sales rebounded to some extent in the final quarter but not to the level anticipated. Overall, sales growth was satisfactory.

The British Columbia economy was devastated by the continued negative condition of forest product and mining markets. While 1984 sales rose slightly from the disastrous level of 1983, our B.C. operations were unprofitable.

Alberta began to show signs of stability last year as inventories depleted and new orders emerged. Sales were particularly strong in the fourth quarter. We are optimistic that revenues and profits will improve steadily in Alberta, where a substantial portion of our assets are employed. Farm industrial supply sales were affected by severe drought conditions in southern Alberta, as well as in Saskatchewan and Manitoba.

Saskatchewan registered steady but unspectacular growth. We upgraded our branches in the province and established some innovative marketing techniques but suffered a performance decline, nonetheless, due to intense market pressures.

Manitoba is also a stable agricultural and resource economy, although our performance was below forecast. Remedial steps have been taken to ensure stronger sales activity this year.

The buoyant economies of central Canada enabled us to achieve record sales and profits in Quebec and portions of our Ontario operations.

The location and quality of our assets form a strong foundation for further performance gains through targeted marketing programs. This was especially true in Quebec, where we captured larger shares of market segments not being served adequately by competitors.

Finally, our Maritime operations showed some improvement in a generally lacklustre regional economy.

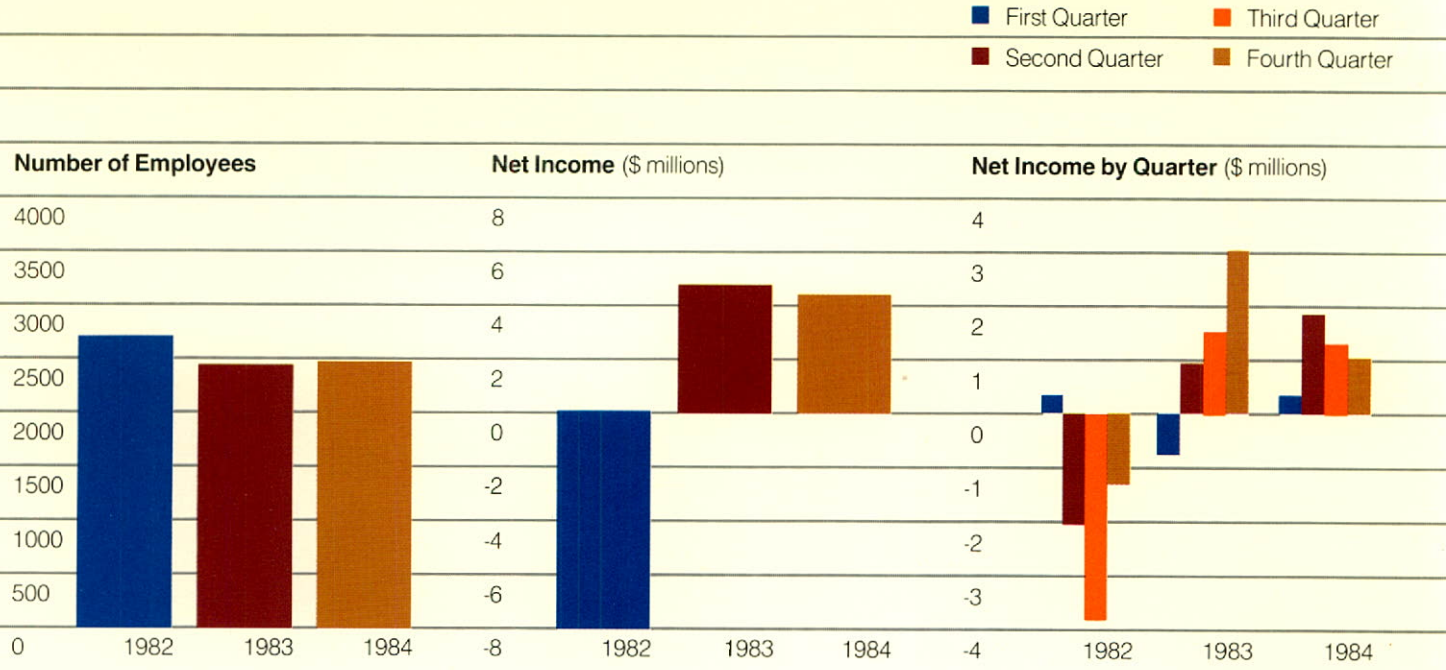
Overall, our results were adversely affected by intense competition in many markets that has endured for a longer period than originally forecast. In general, the economy in a number of areas is still not conducive to growth opportunities and, in order to compete with marginal operators and maintain market share, we have suffered reduced margins. Anticipating that this may continue to be the case, we have adjusted expense levels and developed specific responses in market strategy. Nevertheless, sales were up from 1983 levels and operating profit also increased.

Computerization

Several years ago, Acklands resolved to create the most modern and efficient warehouse distribution system in Canada by installing advanced computer systems that would improve inventory control and customer services.

It is inevitable that manufactures, warehouse distributors, jobbers and wholesale/retail outlets will ultimately be electronically linked to improve product deliverability, asset management and cost efficiencies. Acklands is determined to remain in the forefront of this technological trend.

By the end of 1984, all of our major warehouses were on-line. Our software and hardware systems are compatible in all locations to provide operating reliability.



The emerging benefits of computerization can be seen in our asset management performance. Inventory turnover in 1984 was 3.9 times including inter-company transactions, and 2.6 times excluding inter-company sales. This compared with 3.3 times and 2.3 times respectively in 1983.

We have also developed in-house facilities and staff for our programming and system design to ensure we preserve high standards of quality control within our computer systems.

The computerization program has involved considerable capital expenditures during a period when sales revenues and profits were less than satisfactory. We have reached the point where our computer technology will have an accumulating favourable influence on future operating performance. Recently, we joined a network that allows our warehouses to place orders directly with the computers of certain of our large suppliers. We are also able to maintain a better balance between supply and demand for inventory items.

This year, we will install prototype computer terminals in several branches and continue to enable jobbers to reap the benefits of joining our electronic network.

Our data processing efforts are clearly focussed on both cost containment and customer service enhancement as management priorities. In fact, our on-staff computer expertise has made it possible for us to carry out sales analysis and other functions within the company and to renegotiate other contracted services at substantial savings.

Consolidations and Expansions

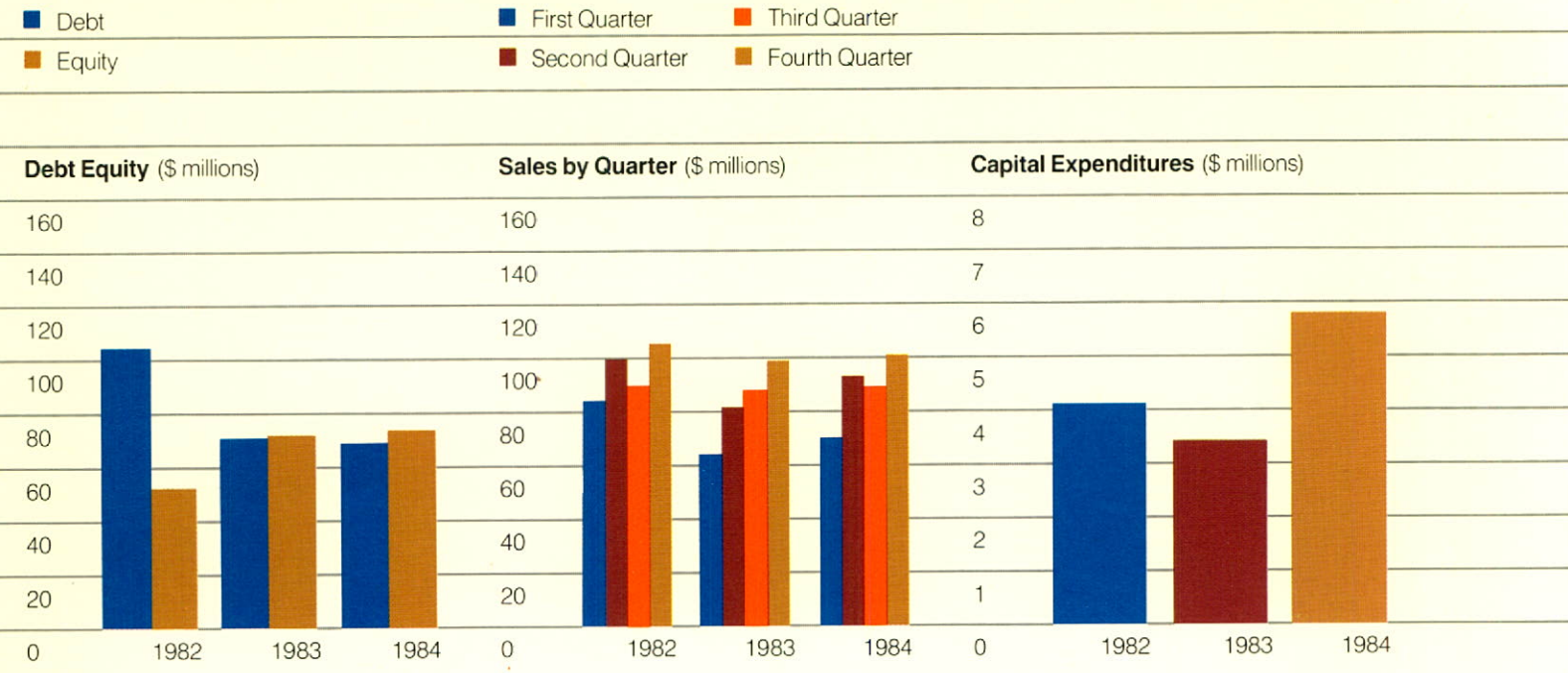
Since 1982, we have consolidated various facilities and divested unprofitable branches to achieve operating economies. This process culminated in 1984 with the consolidation of two warehouses in Calgary and a complete reorganization of our Alberta distribution system. Early in 1985, a body shop supply branch and a fastener branch were consolidated in the Calgary warehouse.

We have now completed our major campaign to streamline the organization and drastically reduce operating costs, although refinements of a less dramatic nature will continue. Nonetheless, there are still some consolidations of warehousing to take place in 1985.

While consolidations have been an important thrust in the reshaping of Acklands as a lean and tightly-knit organization, we have not ignored expansion opportunities. Late last year, we acquired a small fastener business in British Columbia. This business supplies products identical to Acklands and the acquisition will enhance our market share.

Employee Productivity

The Acklands workforce has been reduced substantially during the consolidation and computerization process, although in 1984 staff numbers levelled off, with 2,432 people on the payroll at year-end. A positive trend was that wage costs represented 15.6 percent of sales in 1984, compared with 16.0 percent in 1983 and 18.5 percent in 1982.



Considerable progress was made in real productivity gains during a period of declining inflation. Sales per employee were $146,235, compared with $135,995 in 1983 — and a dramatic improvement from the $124,545 level in 1982.

Corporate Reorganization

In 1984, we were in a position to review our senior executive team and make key changes appropriate to the company's new operational structure. We simplified our previous field operations by setting up three new groups — one for British Columbia and Alberta; a second for Saskatchewan, Manitoba and Northwest Ontario; and a third for Ontario, Quebec and the Maritimes. Each is headed up by a newly appointed Group Vice-President.

The restructuring provides stronger leadership of our field operations, shortens reporting and communications lines throughout the Company, and ensures the more effective implementation of national policies for marketing, sales, purchasing and personnel.

A general sales manager was also appointed to combine, for the first time, responsibility for product selection, marketing and sales of automotive parts and industrial supplies on a national basis.

These management changes, coupled with strict budgeting and cost control programs and aggressive market research and sales activities, will greatly increase our ability to perform profitably as a distributor of automotive parts and industrial supplies throughout Canada. Consequently, we are well positioned to optimize revenue growth and build our existing share of markets in the years ahead.

Don Dawson
Senior Vice-President
and General Manager

Consolidated Balance Sheet

As at November 30, 1984

Assets			1984		1983
Current Assets	Cash	**$**	**1,898,000**	$	3,605,000
	Accounts receivable		**53,864,000**		50,427,000
	Inventories		**90,529,000**		97,734,000
	Prepaid expenses		**999,000**		1,323,000
			147,290,000		153,089,000
Other Assets	Investment in 50% owned company		**370,000**		998,000
	Mortgages and lien notes receivable and other assets		**5,214,000**		3,432,000
			5,584,000		4,430,000
Fixed Assets (note 2)	Land, buildings and equipment		**55,889,000**		52,226,000
	Accumulated depreciation		**22,925,000**		20,673,000
			32,964,000		31,553,000
		$	**185,838,000**	$	189,072,000
Liabilities					
Current Liabilities	Bank advances (note 3)	**$**	**37,858,000**	$	35,332,000
	Accounts payable and accrued liabilities		**40,479,000**		43,208,000
	Income and other taxes payable		**925,000**		650,000
	Principal due within one year on long-term debt		**3,749,000**		4,230,000
			83,011,000		83,420,000
Long-Term Debt (note 4)			**26,787,000**		30,759,000
Deferred Real Estate Income			**3,649,000**		3,862,000
Shareholders' Equity					
Capital Stock (note 5)	Series A $.96 non-voting, second preference shares (71,963 shares in 1983)				1,151,000
	3,870,511 Common shares (3,840,865 shares in 1983)		**32,956,000**		32,464,000
			32,956,000		33,615,000
Retained Earnings			**39,435,000**		37,416,000
			72,391,000		71,031,000
		$	**185,838,000**	$	189,072,000

Contingent Liabilities and Commitments (note 6)
Obligations Under Leases (note 7)

Approved by the Board

N. Starr, Director

D.J. Wilkins, Director

Consolidated Statement of Income

Year Ended November 30, 1984

		1984	1983
	Sales from continuing operations	$ 349,165,000	$ 317,471,000
	Cost of sales, selling and administrative expenses	332,333,000	299,933,000
		16,832,000	17,538,000
Other expenses	Depreciation	2,984,000	2,660,000
	Interest on long-term debt	4,061,000	4,696,000
	Other interest	5,860,000	5,871,000
		12,905,000	13,227,000
		3,927,000	4,311,000
	Gain on sale of fixed assets	935,000	926,000
	Income before income taxes and other items	4,862,000	5,237,000
	Income taxes (note 8)	825,000	902,000
	Income from continuing operations	4,037,000	4,335,000
	Losses of discontinued operations (note 9)	(236,000)	(1,033,000)
	Income before extraordinary items	3,801,000	3,302,000
	Extraordinary items (note 10)	555,000	1,350,000
Net Income		$ 4,356,000	$ 4,652,000
Earnings (Loss) **Per Share** (note 11)	Income from continuing operations	$ 1.04	$ 1.32
	Losses of discontinued operations	(0.06)	(0.32)
	Income before extraordinary items	0.98	1.00
	Net income	1.12	1.43

Auditors' Report

To the Shareholders of
Acklands Limited

We have examined the consolidated balance sheet of Acklands Limited as at November 30, 1984 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Winnipeg, Canada
January 25, 1985

Thorne Riddell

Chartered Accountants

Management's Reporting Responsibility

The accompanying consolidated financial statements of Acklands Limited and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the annual report is consistent with that in the financial statements.

Management of the corporation and its subsidiaries, in furtherance of the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded.

The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this annual report principally through its audit committee, consisting solely of outside directors. The audit committee reviews the corporation's annual consolidated financial statements and recommends their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with and without management being present.

These financial statements have been examined by the shareholders' auditors, Thorne Riddell, Chartered Accountants, and their report is presented herein.

N. Starr

Nathan Starr
President & Chief Executive Officer

P. Burns

Paul Burns
Senior Vice President, Administration

Consolidated Statement of Retained Earnings

Year Ended November 30, 1984

		1984	1983
	Balance at beginning of year	$ 37,416,000	$ 34,374,000
	Net income	4,356,000	4,652,000
		41,772,000	39,026,000
Deduct	Dividends declared on		
	Second preference shares	18,000	76,000
	Common shares	2,319,000	1,153,000
		2,337,000	1,229,000
	Share issue expenses		381,000
		2,337,000	1,610,000
Balance at End of Year		$ 39,435,000	$ 37,416,000

Consolidated Statement of Changes in Financial Position

Year Ended November 30, 1984

		1984	1983
Working Capital Derived from	Operations		
	Income before extraordinary items	$ 3,801,000	$ 3,302,000
	Add (deduct) items not involving working capital		
	Depreciation	3,004,000	2,830,000
	Income taxes	555,000	441,000
	Gain on sale of fixed assets	(959,000)	(1,017,000)
	Other items	540,000	431,000
		6,941,000	5,987,000
	Increase in long-term debt	2,553,000	1,935,000
	Proceeds from sale of fixed assets	3,332,000	3,005,000
	Proceeds on sale and lease back of property	400,000	6,093,000
	Proceeds from sale of subsidiary companies (less working capital at time of sale of $1,203,000)		2,071,000
	Reduction of mortgages and lien notes receivable and other assets		796,000
	Decrease in investment in 50% owned company	628,000	
	Issue of treasury common shares		16,000,000
		13,854,000	35,887,000
Working Capital Applied to	Closure costs of discontinued operations		423,000
	Additions to fixed assets	5,801,000	3,435,000
	Inventoried equipment capitalized	1,606,000	
	Reduction of long-term debt	6,560,000	13,791,000
	Dividends in cash	2,337,000	1,229,000
	Purchase of second preference shares	731,000	54,000
	Increase in investment in 50% owned company		1,081,000
	Share issue expenses		381,000
	Increase in mortgages and lien notes receivable and other assets	2,209,000	1,083,000
		19,244,000	21,477,000
Increase (Decrease) in Working Capital		(5,390,000)	14,410,000
Working Capital at Beginning of Year		69,669,000	55,259,000
Working Capital at End of Year		$ 64,279,000	$ 69,669,000

Notes to Consolidated Financial Statements

Year Ended November 30, 1984

1. Accounting Policies

(a) Principles of consolidation

The company is engaged in the integrated distribution of automotive and industrial products in Canada and the consolidated financial statements include the accounts of all subsidiary companies. The operating results of all subsidiaries are included in the consolidated financial statements from the dates of acquisition and the acquisitions are accounted for as purchases.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Investment in 50% owned company

It is the company's practice to include in income its equity in net earnings of companies 50% owned and to reflect in the investment account its equity in undistributed earnings.

(d) Fixed assets

Fixed assets are stated at cost. Depreciation is recorded on a basis to amortize the cost of fixed assets over their estimated useful lives and the rates applied are substantially as follows

Buildings
2% Straight-line
Equipment, other than automotive
10% Straight-line
Equipment, automotive
30% Diminishing balance
Leasehold improvements
Over the unexpired terms of the lease

(e) Deferred real estate income

The profits realized on the sale and lease back of property have been deferred and are being amortized over various periods according to the terms of the related leases.

(f) Leases

Leases are classified as either capital or operating leases. Leases that substantially transfer all of the benefits and risks of ownership of property to the company are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with its related long-term obligation to reflect the acquisition and financing. Equipment recorded under capital leases is being depreciated on the same basis as described in note (d) above. Rental payments under operating leases are expensed as incurred.

2. Fixed Assets

	Cost	Accumulated depreciation	1984 Net	1983 Net
Land	$ 3,165,000		$ 3,165,000	$ 3,680,000
Buildings	20,171,000	$ 4,850,000	15,321,000	16,255,000
Equipment	20,096,000	12,875,000	7,221,000	5,904,000
Equipment under capital leases	7,480,000	1,989,000	5,491,000	3,783,000
Leasehold improvements	4,977,000	3,211,000	1,766,000	1,931,000
	$ 55,889,000	$ 22,925,000	$ 32,964,000	$ 31,553,000

3. Bank Advances

Bank advances are secured by the assignment of receivables, a first floating charge on inventories and a junior floating charge on all other assets.

4. Long-Term Debt

	1984	1983
Prime Related Secured Debentures, payable $166,670 per month, maturing October 31, 1995	$ 21,421,000	$ 26,274,000
Obligations under capital leases with maturities to 1990 (note 7)	5,686,000	4,041,000
9¾% to 13% Mortgages, agreements and notes, payable in monthly or quarterly instalments	3,429,000	4,674,000
	30,536,000	34,989,000
Principal included in current liabilities	3,749,000	4,230,000
	$ 26,787,000	$ 30,759,000

Interest on the Prime Related Secured Debentures is at prime commercial lending rates plus ¾ of 1%, but not less than 11½%. The debentures are secured by a fixed charge on certain real estate, a junior floating charge on receivables and inventories and a first floating charge on all other assets.

Principal due within each of the next five years is as follows

1985	$ 3,749,000
1986	4,187,000
1987	3,383,000
1988	3,359,000
1989	3,096,000

5. Capital Stock

(a) Prior to May 17, 1984, 28,965 Series A preference shares were converted into 29,646 common shares and 42,998 preference shares were redeemed at $17.00 per share.

(b) On May 17, 1984 the company obtained Articles of Amendment which changed the authorized capital stock. As a result, the authorized share capital of the company as at November 30, 1984 is as follows

(i) 623,116 Preference shares issuable in series without maximum individual or aggregate consideration.

(ii) An unlimited number of common shares without maximum individual or aggregate consideration.

6. Contingent Liabilities and Commitments

(a) Employees' and officers' bank loans of $4,550,000 have been guaranteed by the company to accommodate their purchase of company shares.

(b) On sale of a subsidiary in 1983, the buyer agreed to indemnify the company with respect to its continuing guarantee of certain obligations of which $2,221,000 (U.S. $1,670,000) were outstanding at November 30, 1984 and provided mortgages on real property as collateral security for such indemnity.

(c) Other guarantees which amount to $1,500,000 are outstanding at November 30, 1984. Of this amount $750,000 has been cross guaranteed to the company.

7. Obligations Under Leases

(a) Capital leases

The following is a schedule by year of future minimum lease payments together with the balance of the obligations under capital leases.

	1984	1983
1984		$ 1,133,000
1985	**$ 1,690,000**	1,035,000
1986	**1,649,000**	992,000
1987	**1,643,000**	985,000
1988	**1,435,000**	725,000
1989	**872,000**	382,000
1990	**222,000**	222,000
	7,511,000	5,474,000
Amount representing interest	**1,825,000**	1,433,000
Balance of obligations included in long-term debt	**$ 5,686,000**	$ 4,041,000

(b) Operating leases

The company rents real property and automotive equipment under operating leases which, after recoveries from subtenants totalling $3,931,000, call for future net rentals of $45,588,000. Net rentals are as follows

1985	$ 5,215,000
1986	4,356,000
1987	3,492,000
1988	2,333,000
1989	2,211,000
1990 – 2004	27,981,000

8. Income Taxes

(a) Provision for income taxes

The company's provision for income taxes charged against continuing operations is accounted for as follows

	1984	1983
Income taxes based on Canadian statutory income tax rates applied to income before income taxes and other items	**$ 2,480,000**	$ 2,671,000
Decrease in taxes resulting from		
Inventory allowance	**1,474,000**	1,445,000
Lower effective income tax rates on capital gains	**149,000**	273,000
Other	**32,000**	51,000
	1,655,000	1,769,000
Provision for income taxes	**$ 825,000**	$ 902,000

(b) Losses carried forward

At November 30, 1984 the company has the following available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts. Losses carried forward for tax purposes until

1985	$ 135,000
1986	4,059,000
1987	811,000
1989	11,000
1990	130,000
1991	36,000
	5,182,000
Net timing differences resulting from revenue and expense items reported for tax purposes in different periods than for financial purposes	3,076,000
	$ 8,258,000

9. Discontinued Operations

The decision was made to close certain branches and operating divisions in 1984 and 1983. Results of these operations are included in "Losses of discontinued operations" as follows

		1984		1983
Sales	**$**	**1,799,000**	$	11,094,000
Expenses including depreciation of $20,000 ($170,000 in 1983)		**2,281,000**		12,587,000
Losses for the year		**482,000**		1,493,000
Income tax (recovery)		**(246,000)**		(460,000)
	$	**236,000**	$	1,033,000

Losses of discontinued operations in 1983 include the operating results of divisions and branches closed in 1984 and 1983.

10. Extraordinary Items		1984		1983
Gain on sale of subsidiary and affiliated companies including income tax of $230,000			$	1,562,000
Income tax reduction on application of unrecognized tax benefits of prior years	**$**	**555,000**		
Closure costs of discontinued operations after income tax recovery in 1983 of $211,000				(212,000)
	$	**555,000**	$	1,350,000

11. Earnings Per Share

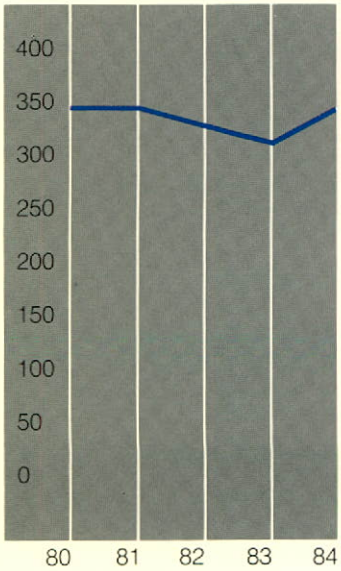
The calculation of basic earnings per share, after adjusting for second preference share dividends (see note 5(a)), has been made using the weighted monthly average number of common shares outstanding, 3,864,383 shares (3,209,977 shares in 1983).

Five Year Financial Summary	1984	1983	1982	1981	1980
Sales from continuing operations	**$349,165,000**	$317,471,000	$334,093,000	$350,426,000	$349,973,000
Depreciation	**3,004,000**	2,830,000	3,330,000	3,484,000	2,742,000
Interest on long-term debt	**4,061,000**	4,696,000	8,435,000	10,185,000	4,144,000
Net income (loss)					
Including extraordinary items	**4,356,000**	4,652,000	(6,812,000)	2,049,000	5,253,000
Before extraordinary items	**3,801,000**	3,302,000	(2,822,000)	2,049,000	5,253,000
Dividends					
Preference shareholders	**18,000**	76,000	107,000	173,000	193,000
Common shareholders	**2,319,000**	1,153,000	1,082,000*	1,628,000	1,460,000
Working capital	**64,279,000**	69,669,000	55,259,000	65,065,000	64,173,000
Fixed assets, net	**32,964,000**	31,553,000	40,645,000	46,799,000	42,198,000
Long-term debt	**26,787,000**	30,759,000	46,103,000	55,371,000	49,890,000
Shareholders' equity	**72,391,000**	71,031,000	52,038,000	60,631,000	57,827,000
Total assets	**185,838,000**	189,072,000	202,461,000	239,760,000	228,348,000
Earnings per common share					
Including extraordinary items					
Primary	**1.12**	1.43	(2.49)	.69	1.98
Fully diluted	**	1.42	(2.38)	.71	1.74
Before extraordinary items					
Primary	**.98**	1.00	(1.05)	.69	1.98
Fully Diluted	**	1.01	(.99)	.71	1.74
Dividends paid per common share	**.60**	.30	.39	.60	.57
Equity per common share	**18.70**	18.19	17.90	20.90	21.33
Common shares outstanding	**3,870,511**	3,840,865	2,832,555	2,773,764	2,567,764
Number of branches	**229**	237	268	318	284

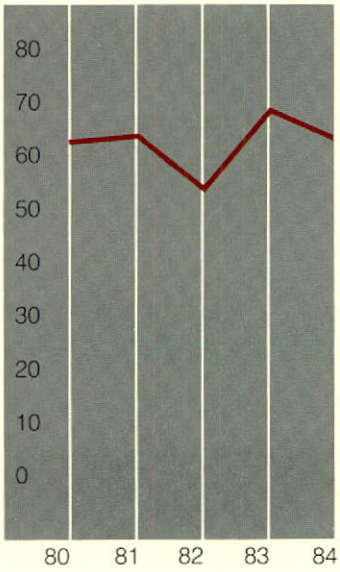
*1982 figure includes stock dividend of $665,000

**there were no preferred shares outstanding at the end of 1984

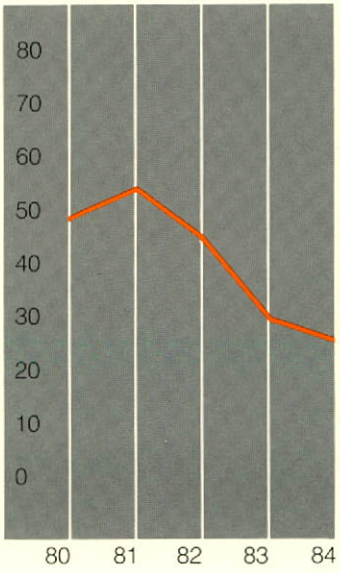
Sales



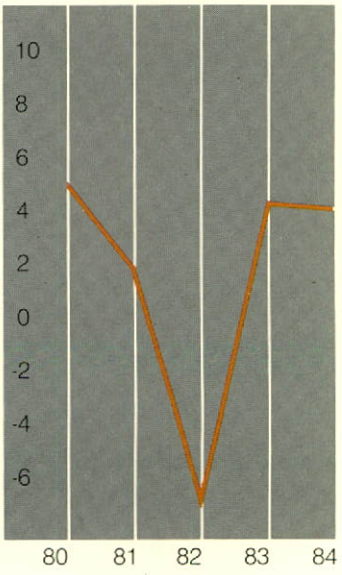
Working Capital



Long-Term Debt



Net Income



Ratio Analysis	1984	1983	1982
Working Capital	**1.77:1**	1.84:1	1.54:1
Debt/Equity	**.94:1**	.99:1	2.00:1
Asset Turnover	**1.93:1**	1.74:1	1.85:1
Return on Assets	**2.3%**	2.5%	(3.4%)
Inventory Turnover			
including inter-company	**3.9X**	3.3X	3.0X
excluding inter-company	**2.6X**	2.3X	2.0X
Accounts Receivable Turnover (trade only)	**7.0X**	7.0X	7.0X
Personnel Productivity (wages to gross profit)	**51.4%**	51.7%	54.4%
Sales per employee (average)	**$146,235**	$135,995	$124,545
Number of employees – end of year	**2,432**	2,415	2,676

1984 Summary by Quarter ($ millions)

	Sales (including discontinued operations)			Net Income (Loss)			Earnings per share (dollars)		
	1984	1983	1982	**1984**	1983	1982	**1984**	1983	1982
First Quarter	**$ 70.2**	$ 63.4	$ 82.5	**$ .3**	$ (.7)	$ .3	**$ .06**	$ (.25)	$ .09
Second Quarter	**92.2**	80.3	98.5	**1.8**	.9	(2.0)	**.47**	.31	(.72)
Third Quarter	**87.9**	87.2	89.1	**1.3**	1.5	(3.8)	**.33**	.48	(1.37)
Fourth Quarter	**100.7**	97.7	103.7	**1.0**	3.0	(1.3)	**.26**	.89	(.49)
	$351.0	$328.6	$373.8	**$4.4**	$4.7	$(6.8)	**$1.12**	$1.43	$(2.49)

Return on Common ($ millions)

	Equity	Income (loss)	% Return
1980	$54.8	$ 5.3	9.7%
1981	58.0	2.0	3.5
1982	50.7	(6.8)	(13.4)
1983*	69.9	4.7	6.7
1984	**$72.4**	**$4.4**	**6.1%**

*During 1983 the company issued $16,000,000 of Treasury Common Shares.

Capital Expenditures by Province
($ millions)

	1984	1983	1982
Quebec	**$ .1**	$ .1	$ .1
Ontario	**.9**	.2	.5
Manitoba	**1.3**	.4	.4
Saskatchewan	**1.3**	.3	.6
Alberta	**1.8**	1.6	1.3
British Columbia	**.4**	.8	.8
United States	**—**	—	.4
Total	**$5.8**	$3.4	$4.1

Growth of Total Assets ($ millions)

1980	228.3	+ 9.6%
1981	239.8	+ 5.0%
1982	202.5	- 15.6%
1983	189.1	- 6.6%
1984	**185.8**	**- 1.7%**

Working Capital
Bank advances were $37.9 million at year end, compared with $35.3 million in 1983. Working capital at year end totalled $64.3 million, down $5.4 million from $69.7 in the prior year.

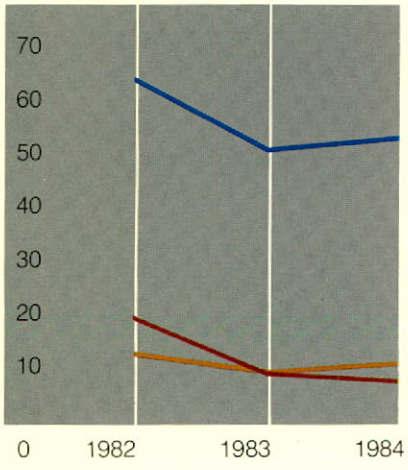
Operating Expense ($ millions)

	1984	1983	% Change
Payroll	**$ 54.3**	$ 52.6	3.2
Selling	**11.6**	10.7	8.4
Premises	**15.3**	15.1	1.3
Warehouse	**6.3**	5.8	8.6
Administration	**11.6**	11.9	- 2.5
Depreciation	**3.0**	2.7	11.1
Interest paid	**9.9**	10.8	- 8.3
Gain on sale of fixed assets	**(.9)**	(1.1)	- 18.2
Gain on sale of subsidiary and affiliated companies	**—**	(1.3)	-100.0
Other Income/Expenses	**(4.5)**	(4.2)	7.1
	$106.6	$103.0	3.5

	($ millions)			(percentage)		
Capitalization at Year End	**1984**	1983	1982	**1984**	1983	1982
Common Equity	**$72.4**	$ 69.9	$50.7	**73.0%**	68.7%	51.7%
Preferred Stock	**—**	1.1	1.3	**—**	1.1	1.3
Long-Term Debt	**26.8**	30.8	46.1	**27.0**	30.2	47.0
	$99.2	$101.8	$98.1	**100.0%**	100.0%	100.0%

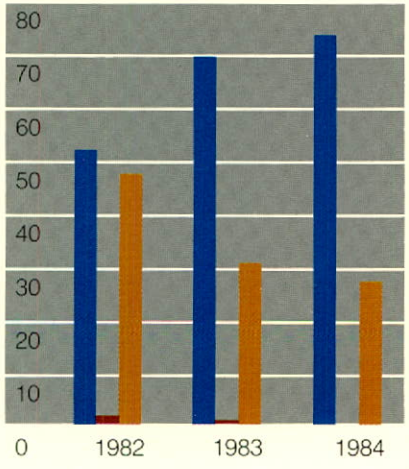
■ Payroll
■ Interest
■ Selling

Operating Expense



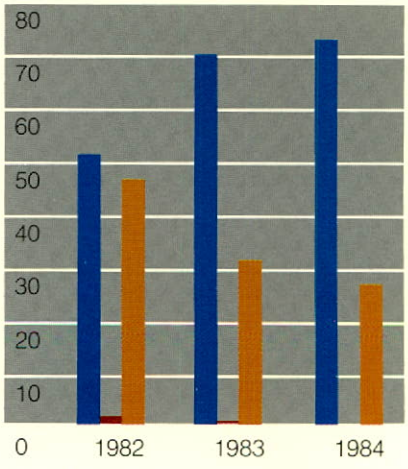
■ Common Equity
■ Preferred Stock
■ Long-Term Debt

Capitalization Percentage



■ Common Equity
■ Preferred Stock
■ Long-Term Debt

Capitalization ($ millions)



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